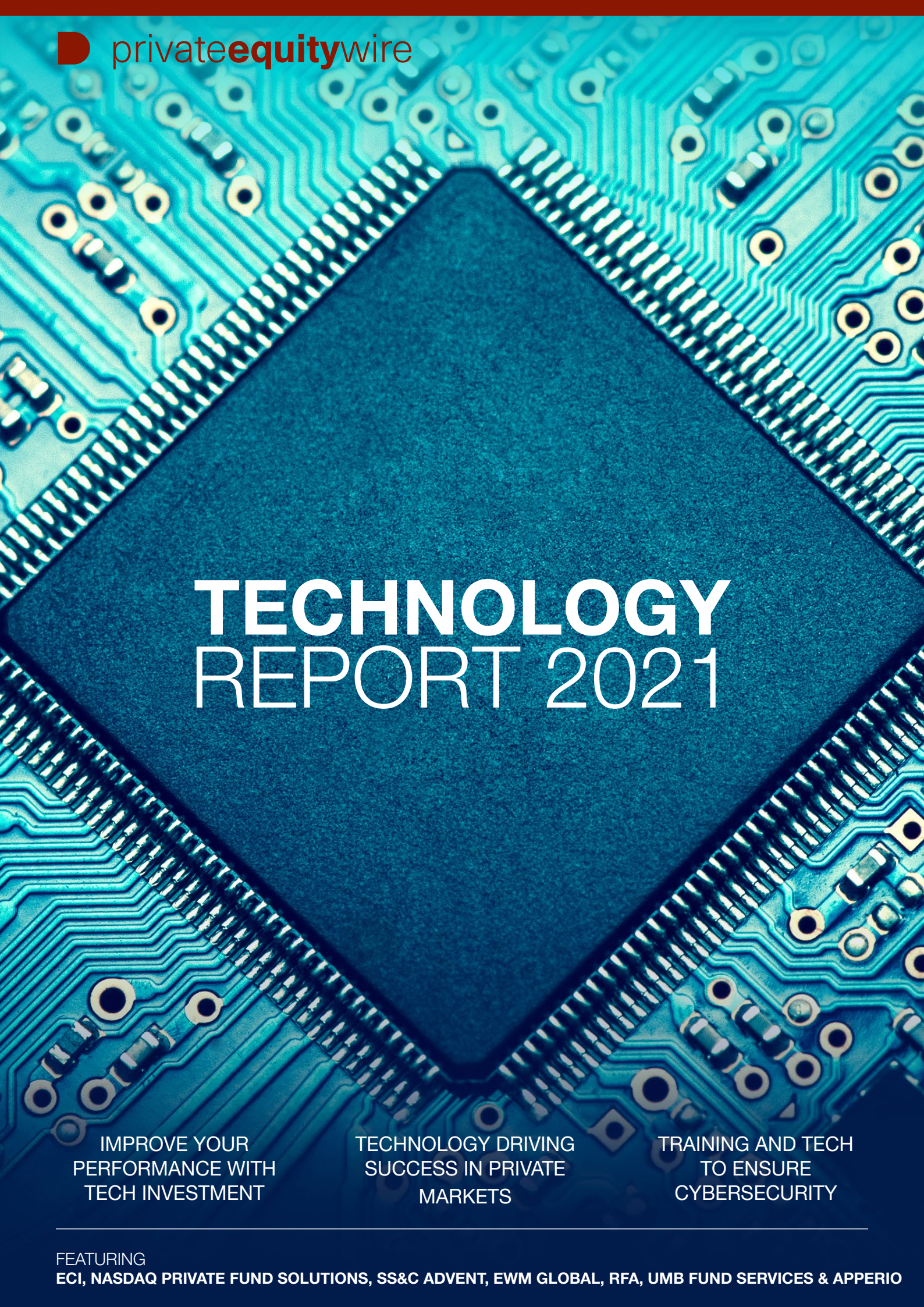
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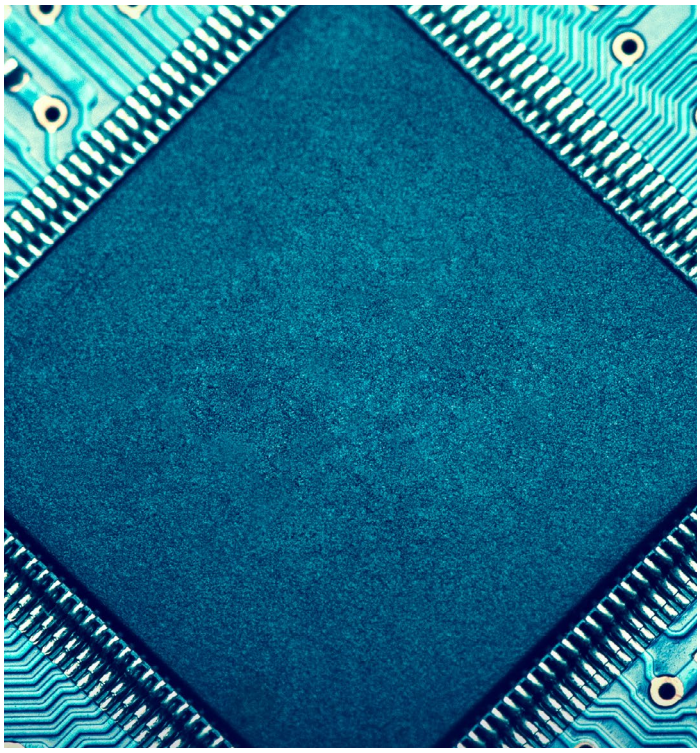
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Published by: Hedgeweek, 8 St James's Square, London SW1Y 4JU, UK
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BUYOUT FIRMS EMBRACE TECHNOLOGY FOR INVESTMENT

AND TO BOOST THEIR OWN PERFORMANCE

BY ROBIN PAGNAMENTA

They are used to big deals, quick turnarounds – and bumper pay days. But private equity executives have, in the past, sometimes been slower to embrace something else: cutting edge technology which rules the roost in many other areas of the financial services industry.

Compared to asset managers and hedge funds, which rely on state-of-the-art software and artificial intelligence (AI) to execute trades and craft trading strategies every hour of the day, private equity has always moved at a different pace.

A highly conservative industry – deals often take years to come to fruition – and the importance of human relationships, raw intuition and longer time horizons in the sector, has traditionally meant that technology has taken more of a back seat.

No longer – at least that is the verdict of the industry experts interviewed by GFM in this year's Private Equity Week annual technology report.

Over the past 12 months, private equity firms around the world have been engaged in an extraordinary boom as investors hunt for higher returns with interest rates at historic lows.

The global value of deals carried out by private equity firms is expected to exceed USD1 trillion (GBP723 billion) for the first time this year, according to figures from Bain & Co, the management consultancy firm.

But as the market grows fiercely competitive – with more deals and more funds than ever before – so the way firms deploy technology to analyse and conduct deals, supervise portfolio companies and communicate with investors, has taken on an increasingly central role.

TECH INVESTMENTS IN FOCUS

Perhaps this should come as no surprise.

After all, private equity firms are flush with cash and have been shovelling vast sums above all into technology companies as they chase higher returns and profitable exits.

Back in January 2021, global private equity dry powder stood at an all-time high of USD1.9 trillion despite the fact that fundraising had slowed in 2020 as investors pulled back from committing capital to new funds to focus on existing portfolio companies, according to data from Preqin.

Either way, a large chunk of that cash has been channelled into tech investments – about USD80 billion in the first quarter of 2021 alone, according to figures from Bloomberg.

That was an all-time quarterly record and 141 per cent higher than during the same period of 2020.

It included deals like the USD5.3 billion acquisition of Cloudera by a private equity consortium including KKR and Clayton, Dubilier & Rice (CDR) in June and Thoma Bravo's purchase of security software vendor Proofpoint in April for USD12.3 billion

In February, Stone Point Capital and Insight Partners also agreed to buy tech-powered real estate company CorePoint for close to USD6 billion.

Ernst & Young said in a report earlier this year that technology accounted for 24 per cent of private equity deals by total value in 2020, up from 19 per cent in 2019.

Given their growing taste for technology investments – some of which have delivered sizzling returns in big ticket IPOs like Zoom, Snowflake and Asana – it follows that private equity firms should be seeking to embrace



more new technology themselves to help streamline their operations and improve performance.

"The industry is moving towards more of a technology focus and innovation is going to rule the day," says Jake Zornes, managing director of UMB Fund Services.

"The market is becoming more and more competitive – that's the general trend."

LEGALTECH

From legal technology which is helping them to shave millions off their lawyers' bills to cloud-based analytical tools and third-party data sources used to evaluate potential deals and communicate more effectively with investors, software and IT are playing a bigger role than ever.

Many firms are realising that the days of running a private equity fund with an Excel-spreadsheet database have long been consigned to the history books.

These days, funds which don't apply new software and tools or automate previously manual processes are putting themselves at a distinct disadvantage compared to rivals which are able to use technology to process a far greater volume of deals, often with a smaller and nimbler team.

"When you look at private equity firms that have done really well over the past five to seven years, they have a very aggressive sourcing strategy," says Rich Itri of ECI.

"They are really aggressively sourcing new companies, engaging with those companies, and making investments in them."

Nicholas D'Adhemar, founder of London-based legaltech start-up Apperio, agrees that software is being viewed much more carefully by private equity firms than in the past.

He says: "Ultimately, you look for the return first, but then what's the secondary differentiator? It's going to be elements like this that point to how you run your shop."

"They're looking to technology to help them be more efficient and more effective, and how they run their internal teams – but also the deals themselves."

SOFTWARE IN FOCUS AT PE PORTFOLIO COMPANIES

Of course, there is another leg to this story: the role that new technology plays in helping boost the profitability of private equity portfolio companies.

More than ever before, private equity firms view the deployment of new systems and software as the most obvious way to cut costs and drive efficiencies when they acquire a new business.

That laser focus has also driven many to look more carefully at their own operations.

While human intuition and the ability to spot a good management team or a brilliant new entrepreneur with a great business idea will always play a vital role in the sector, there is little doubt that firms are viewing technology in a far more strategic way than ever before.

The relentless rise of cloud computing has amplified this trend, partly by dramatically improving access to third party data sets, which are helping private equity firms make better judgements about corporate valuations.

Itri says: "Third party data really gives them the opportunity to find bolt-ons or companies that they just didn't have before – or it allows them to better value the company that they want to buy." ■



INDUSTRY BOOM

FORCES PRIVATE EQUITY FIRMS TO EMBRACE NEW WAYS OF WORKING

BY ROBIN PAGNAMENTA

It's a golden age for private equity firms, amid soaring valuations and a frenzy of takeover deals over the past year.

That same pace of growth and success is also acting as a powerful agent of change for the industry in how it views and uses technology.

For Rich Itri, SVP, Professional Service, at ECI, a provider of managed IT services, cybersecurity and business transformation solutions, it's a trend that is long overdue.

While other areas of financial services have eagerly adopted new systems to keep pace with their competitors, private equity firms have traditionally taken a different approach.

"It's an exciting time on the private equity side because they finally see the value in investing in technology," says Itri, an industry veteran with over 20 years of experience in the sector.

Itri believes private equity firms now accept that the sheer size of the industry – with thousands of funds and firms scrambling to compete against each other for deals – means they need to use technology in a more innovative way to compete more effectively.

RISING COMPETITION

"In private equity, it's always been a challenge to get firms to think a little more strategically because of the lifecycle of their deals, and because things are so stretched out," he says, contrasting the sector with asset management, where the time-critical nature of trading and investment decisions has acted as a powerful driver for the implementation of cutting-edge software and other systems.

"Now that urgency has changed, and the need to become more extensible as an organisation is driving them to be more strategic from an IT perspective."

Increasingly, Itri believes private equity firms are trying to automate processes and standardise the data they use to streamline their overall operations and analyse potential opportunities more efficiently.

"These companies now have to scale," he says.

"They've got bigger, in terms of their organisations, and they need to process more data as they grow. And they realise that the model they have in place just isn't going to work. Their costs will continue to grow, and they're going to have to continue to rely on people. And they're seeing the value now in leveraging technology."

Itri continues: "They don't want to have to keep hiring people to shuffle papers around. They want to leverage technology to be able to streamline things."

STREAMLINED OPERATIONS

Itri says one example is how firms are sourcing deals in new ways – by automating the processes involved in analysing potential target companies and using advanced

algorithms to do so.

"Taking those very manual processes that were so time-consuming, and being able to streamline them into really automated processes, is how a lot of these private equity companies are going to be able to scale going forward," he says.

Private equity firms see the value of pulling in information from multiple sources and developing algorithms to find companies that they want to invest in or bolt on to existing companies.

Being able to do that at scale, and do it faster than a rival company, is becoming a competitive advantage.

PORTFOLIO COMPANIES IN FOCUS

It's not just the process of originating and analysing potential deals where the industry is evolving. Itri also believes private equity firms are becoming more directive in using new technology and software in their portfolio companies.

"Traditionally, firms would invest in a company, but they wouldn't be super aggressive in dictating a lot of the operational aspects in and around their technology.

"Now, a lot of the private equity firms have groups that just focus on enabling their portfolio companies to leverage technology better: to do group purchasing, things that help generate value in the organisation and drive value creation."

CYBERSECURITY

Cybersecurity is one area where private equity firms have been focused, especially recently.

The cyber-attack on the Colonial Pipeline, an oil project 23 per cent owned by KKR, offers an illustrative example of how such incidents can seriously damage the profitability of a portfolio company, with serious and immediate implications for investors.

Colonial was forced to pay hackers an estimated USD5 million ransom to restore the pipeline to service and lost several days of income when its flows were suspended.

"The investors now are keen on making sure that the PE firms are holding their portfolio companies accountable," he says.

"So, they'll bring in firms like us to standardise their security platform, to do assessments and audits and make sure they're following industry standards."

Other areas are coming into focus, too, as firms seek other ways in which technology can bolster the performance of companies in their portfolio.

"They see technology as a competitive advantage inside these portfolio companies and want to make sure that they're leveraging it to its fullest, whether that be creating a better customer experience for an app that the portfolio companies might have or automating some of their processes internally and allowing that portfolio companies to scale. At the end of the day, the private equity firm is investing because they want them to grow."

THIRD-PARTY DATA

Another key theme which Itri believes is reshaping the industry is the increasing proliferation and ease of access to third party data used to conduct due diligence ahead of a deal.

The availability of those alternative data sets, often hosted in the public cloud, is changing the way deals are negotiated and the types of conversations private equity firms are having with their investors.

"Data is now becoming more accessible," he says. "Even three years ago, it was very costly, and you needed a specific skill set, in-house, to be able to bring that data and be able to query it and make sense of it all. Now, with some of the advanced tools out there, like Snowflake, for example, you can just subscribe to these data sources and run queries directly against them."

That means private equity firms are starting to realise they can leverage the accessibility of third-party data in new ways.

"It really gives them the opportunity to find bolt on acquisitions or companies they didn't have before. Or it allows them to better value the company that they want to buy. "

Itri says this new ease of access is changing the industry in different ways.

"If a company is saying: 'We see revenue growing from this to that, and we think the total addressable market is X', then the PE shop will go out and get third party data to verify that. They'll come back and say: 'Well, I don't think your total addressable market is this, and your valuation is not 200 million; it's 165 million – and here's why.'"

Investors are benefiting from the trend, too, by being able to form their own views about the way businesses are valued, Itri says. "Everyone feels more comfortable with data to back up a thesis." ■



RICH ITRI

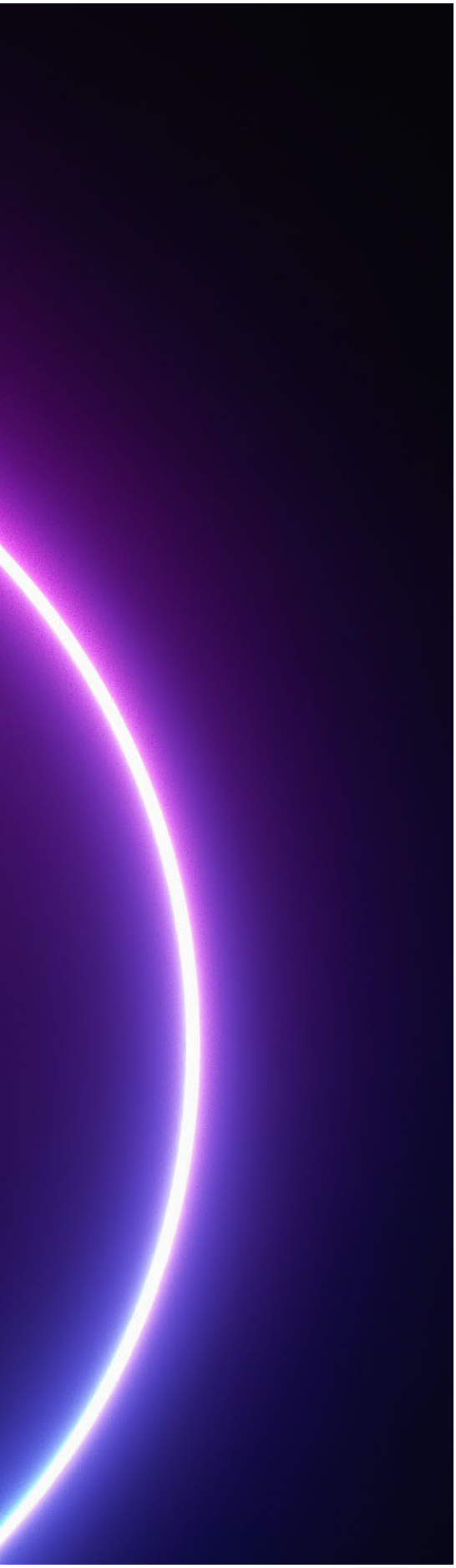
SVP, PROFESSIONAL SERVICES, ECI

Rich Itri is a Senior Vice President of Professional Services (CIO Advisory) at ECI. Rich has over 22 years of IT executive experience, spending his entire career managing IT within the financial services industry. Over the years, Rich has developed and managed innovative, business aligned platforms, that drive revenue and operational efficiencies. Rich holds positions on several Advisory Boards and volunteers his time to help non-profits leverage technology.

FIVE QUESTIONS
TO ASSESS YOUR FUNDRAISING OPERATIONS

BY KATEY BOGUE





As the size and importance of private fund portfolios continue to scale rapidly for LPs, so too do the complexities of raising and reporting for GPs. There are increasing volumes of portfolio data to harness, more demands from investors to address, and more operational risks to navigate.

GPs looking to secure their place in tomorrow's private markets must ensure their fundraising operations and technologies are helping, not hindering, them on the path to their next hard cap.

We have developed these five key questions to ask of your current operations through our experience working with hundreds of GP and LP clients, from the industry giants to burgeoning funds. We hope they help you in assessing your readiness for today's fundraising environment.

1. DO WE KNOW OUR PORTFOLIO AS WELL AS OUR LPS DO?

Over the past 18 months, the need for information about private fund portfolios has accelerated, and its impact on LP-GP relationships has been magnified. LPs are digging deeper into their existing holdings each quarter and also into longer-term performance when evaluating new opportunities. The result is more, and tougher, questions for IR teams to answer.

When every touchpoint with an LP is influential in contributing towards securing (or not) your next commitment, answering complex questions about portfolio performance efficiently and comprehensively is fundamental to create trust and confidence.

Yet many GPs are restricted in their ability to do so due to their current tech stack. Rigid portfolio management tools typically only provide GPs with high-level views on performance, and rarely deliver the depth of insight or analytics flexibility required.

Ask if your tech stack forces your team to spend the majority of their time being reactive in servicing LP questions; or are they equipped to be proactive in portfolio analysis and to view your track record through the eyes of an LP? Do they have the ability to easily delve beyond the fund-level returns, flag the potential questions that might arise, and construct compelling answers?

2. DOES OUR TEAM HAVE ACCESS TO MARKET DATA? OR MARKET INTELLIGENCE?

When it comes to gathering insights on investors and their competitors, many GPs rely on data sources where information is static and flat, lacking context. This data discloses what happened, but not why – and certainly not what is likely to happen next.

True market intelligence goes deeper.

Ask if your current data providers can help you easily answer questions such as:

- Why has an LP changed asset allocation?
- Why did they commit to a competitor's fund? And how did that competitor pitch?
- How is this investor planning to execute their commitment pacing in the future?
- How is the advice of their consultant altering their appetite for a fund like ours?

Without being able to answer these questions, fundraising teams can spend too much time chasing the wrong investors and are ill-equipped to position their fund in the context of an LP's program, the market and their peers' activity.

3. HOW CONFIDENT ARE WE IN THE INTEGRITY OF THE PORTFOLIO RETURN INFORMATION WE DISTRIBUTE INTERNALLY AND EXTERNALLY?

When it comes to providing internal stakeholders and also LPs with cuts of your performance, how much manual intervention goes into extracting the information? Is your team comfortable in ensuring the most recent data is being used? And what safeguards are in place to ensure the data going into a system is valid in the first place?

Non-specific tools – spreadsheets or even business intelligence tools – are often defaulted to when a portfolio management tool can't deliver the more sophisticated analytics you and your LPs need.

The issue is these tools still need a lot of manual interaction to build formulas or produce various cuts of a portfolio, which creates unnecessary risk.

Ask if your tool of choice offers:

- Automated data processing and quality checks to flag and eliminate data entry inaccuracies.
- A centralised repository for portfolio performance data to eliminate version control issues.
- A purpose-built calculation engine to eliminate manual formula errors or inconsistencies.
- Analytics tools that you don't have to be a data scientist or developer to use.

4. IS KEY INFORMATION ON OUR CURRENT AND POTENTIAL CLIENTS DEMOCRATIZED ACROSS THE FIRM?

As you expand your tech stack and add new tools and data sources to support capital raising, it's important to be conscious of the risk of information siloes being created. Reasons this usually happens include a) outdated software licencing models that penalise you for having lots of users or multiple teams equipped with access, or b) a lack of integration with other key systems.

CRM adoption is now more widespread throughout the industry and so integrating intelligence for fundraising into what should be your system of record can be transformative to your operations.

Supplementing the information you collect about investors or clients through your day-to-day interactions with the deeper market data that third-party providers can offer via API technology has the power to take the value of your CRM to a new level. Information that was previously hidden to most of your users is now illuminated across your organisation for greater knowledge sharing.

> "Over the past 18 months, the need for information about private fund portfolios has accelerated, and its impact on LP-GP relationships has been magnified"
>
> **Katey Bogue Head of Private Fund Solutions, Nasdaq Private Fund Solutions**

5. ARE YOU EQUIPPED TO DEAL WITH INCREASING DEMAND FOR LIQUIDITY BY INVESTORS?

The recent boom in the secondaries market is in some ways a renaissance. Secondaries have transformed from an instrument used primarily as a distressed play to a savvy portfolio management tool. For many, it's a welcome evolution in the market. As a GP on our Industry Advisory Board recently put it, "greater liquidity options for investors are a clear win-win". The revived secondaries market gives investors greater flexibility, and in turn makes the asset class a more attractive avenue for driving AUM growth.

At the same time, the recent boom in volume has highlighted for many GPs how cumbersome and inefficient the existing secondaries process is.

Many of the secondaries technology solutions currently available have solely focused on connecting interested parties with one another. This is obviously a requirement but just a starting point. The reality is that these tools do not ameliorate the significant operational burdens of the process: the cap of 2 per cent of NAV that can be transacted annually to avoid becoming designated a Publicly Traded Partnership (PTP), onerous document collection and signing processes, and challenges in tracking the process of various transactions running concurrently, for example.

The Nasdaq Fund Secondaries platform will provide a streamlined, repeatable process for GPs and their investors that aims to solve these issues by bringing together leading technology expertise and regulatory infrastructure to deliver robust end-to-end technology for the secondaries process. ■



KATEY BOGUE

HEAD OF PRIVATE FUND SOLUTIONS, NASDAQ PRIVATE FUND SOLUTIONS

Katey Bogue currently leads the Private Fund Solutions business for Nasdaq's Investment Intelligence segment, where she is responsible for the market intelligence, analytics and fund secondary capabilities for private markets managers and investors. Katey has nearly 20 years of experience in private markets. Prior to joining Nasdaq, Katey was a Principal at The Carlyle Group in several positions across Investor Services, Fund Management and Finance, mostly focused on streamlining middle office operations and reporting through technology and enhanced data management capabilities. Katey received her BS from Pepperdine University.

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HOW TECHNOLOGY WILL DRIVE SUCCESS

IN PRIVATE MARKETS

BY ROBIN PAGNAMENTA

Faced with historic low-interest rates and equity markets at all-time highs, allocators are directing record capital flows towards the world's private markets. But, for the asset managers racing to capture those flows, there is no easy money.

The surge in allocations has been accompanied by an uptick in manager responsibilities and servicing expectations. Investors and regulators call for similar levels of support and operational rigour to those seen in traditional markets. But, without the right operational infrastructure to meet those demands, managers will struggle to succeed.

ON THE RISE

Latest Preqin figures show the number of private equity and venture capital funds continue to hit new highs, while a record swathe of funds seeks to raise additional capital. Similar trends can be seen in private debt markets, where the number of funds and their capital targets have doubled since January 2017, drawn by the attractive yields on offer.

However, many private market participants lack the technology and integration to automate and streamline fundraising, client onboarding, accounting, payments, reporting, asset servicing and administration, explains Nakis Efstathiou, Senior Director, Solutions Management EMEA & APAC at SS&C Advent.

"The legacy technology that investment organisations use often can't keep pace with the new investment products. The lack of technology investment creates a major challenge for the operations teams that have to record, account and report on these unsupported asset types," says Efstathiou. "Firms frequently end up using Excel or bespoke developments to manage the business. They then have to depend on manual processes to monitor and reconcile the data, ensure the accounting is correct, search for valuation information, and so on. As a result, they struggle to provide consolidated reporting and responsive client servicing."

COMPLEX AND GROWING DEMANDS

Investor demand for accurate, up-to-date, often bespoke reports on all aspects of their investments, including fees and returns, will only continue to rise. Allocators want transparency where the manager invests, the portfolio constituents and their performance, the value of their invested capital, and how much and why they are charged a specific fee. They also want opt-in/opt-out capabilities on investments. And they no longer expect to wait for a paper statement to arrive once a quarter.

Such demands are impossible to meet in a non-automated environment. Manual inputs and workarounds drive up costs and escalate the likelihood of data errors. Using multiple systems that lack the dedicated functionality to manage alternative asset portfolios likewise magnifies firms' costs and creates processing siloes that impact downstream reporting and client servicing. Firms also become dependent on key staff. As a result, operational and reputational risks rise.

"Allocators, especially institutional investors, want proof the investment manager has the capabilities to monitor, control and mitigate market and operational risks, regardless of asset type," says Efstathiou. "They want to see controls in place to guarantee the accuracy, timeliness and integrity of the numbers produced. And they want transparency, with clear, frequent, customised position and performance reporting. Unfortunately, one missed checkbox on the operational due diligence report is enough for a fund to be vetoed before it can even explain its investment strategy."

INTEGRATED AUTOMATION

To tap into the allocation trends and satisfy investors' servicing demands requires breadth and depth of expertise and technology functionality. In addition, robust infrastructures and processes that minimise investment and operational risks reassure investors and give managers the flexibility to compete in new markets and adapt to clients' evolving expectations.

The solution is an integrated technology stack that combines comprehensive instrument coverage with the ability to handle open-, closed-end and hybrid funds, allowing managers to support all their investment strategies in a single environment. In addition, such a solution optimises internal efficiencies, fosters enterprise-wide data consistency, enhances risk oversight and reduces costs—all of which strengthens the firm's competitive edge.

But that is easier said than done. Systems providers need to possess expertise in the alternatives arena, understand the processing challenges, and devote significant and ongoing investment to develop solutions with the requisite capabilities. Few can.

> "The lack of technology investment creates a major challenge for the operations teams that have to record, account and report on these unsupported asset types"
>
> **Nakis Efstathiou Senior Director Solutions Consulting, EMEA &APAC**

"The liquidity profile of private equity, private debt and real estate means assets need to be held in the right vehicle; hence, the surge inflows into closed-end and hybrid funds," says Efstathiou. "Ensuring the integrity and timeliness of accounting data in open and closed periods, and accurately allocating profits, losses, expenses and tax impacts among multiple investors, with the reporting to match, is vital."

To excel in today's competitive market, "Systems need to process capital calls and distributions, track investor notional balances, and calculate management fees on multiple bases. In addition, the system should be able to produce waterfall calculations, calculate and report on investor and fund XIRR, track and account for investor opt-ins/opt-outs, and process multiple subsequent closes," Efstathiou adds.

RELIABLE PARTNER

SS&C Technologies has been a leader in the alternative assets space for many years. Leveraging that experience, the firm has created integrated, automated, truly multi-asset class platforms, such as Geneva, enabling managers to expand and diversify without bulking up operating costs.

"Our proven solutions are widely accepted as the industry's best," he says. "But we can always improve and are continuing to invest in taking the technology where users need it to go. As part of the larger SS&C family, we can also combine technology and complementary support services in areas such as fund administration and regulatory reporting to deliver the operational efficiency, data accuracy, and high-quality client servicing asset managers require."

By relying on a trusted partner, managers can then focus on the critical tasks of managing investments and supporting clients, notes Efstathiou, rather than worrying about the day-to-day operational underpinnings. ■



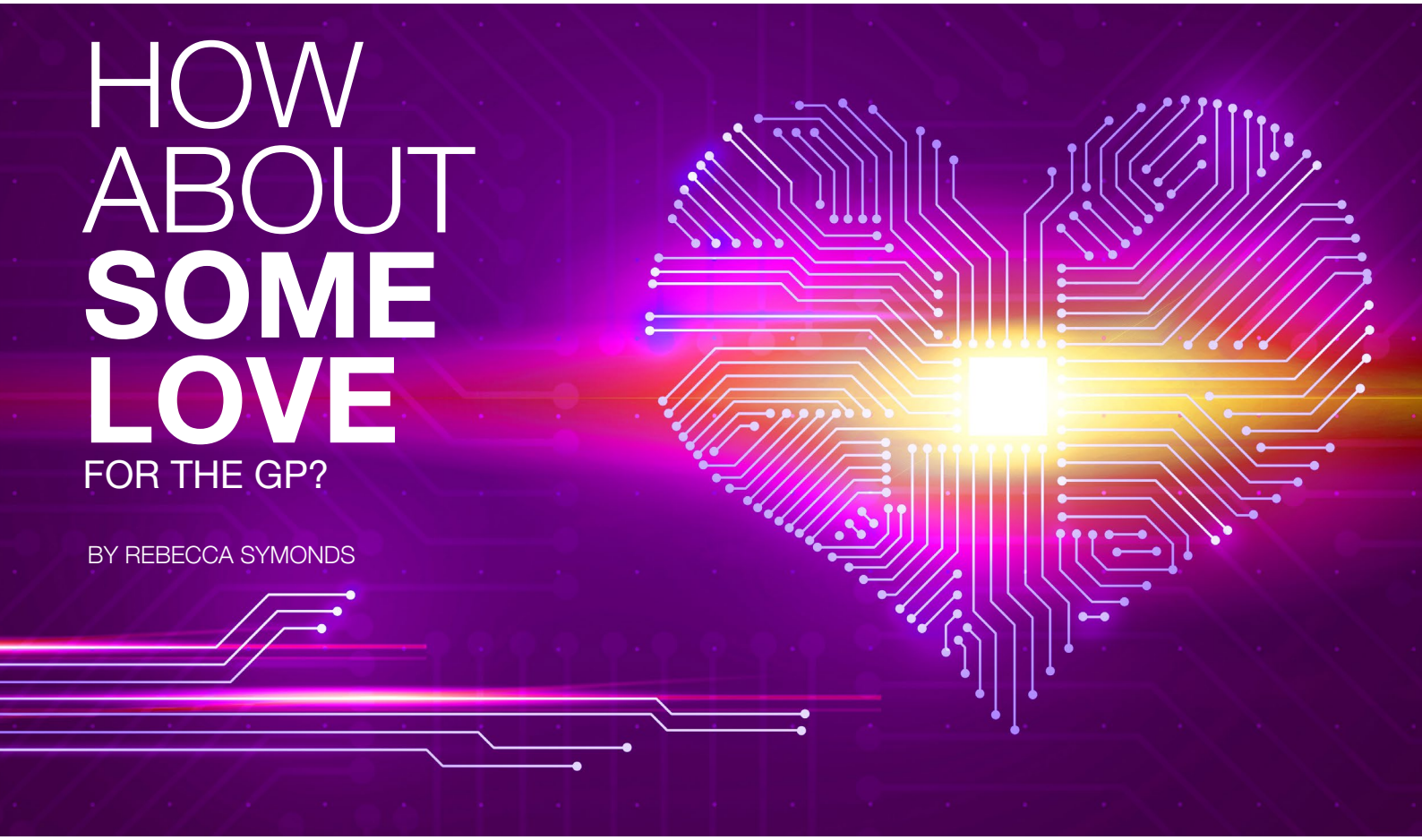
NAKIS EFSTATHIOU

SENIOR DIRECTOR SOLUTIONS CONSULTING, EMEA &APAC

Nakis Efstathiou is Senior Director, Solutions Consulting at SS&C Advent. With over 20 years of experience in the financial industry, Nakis has held various positions, including implementation manager, solution architect and product manager. That has given him the opportunity to gain expertise in financial services, in all aspects of investment management technology and operations, including Portfolio Management, Fund Accounting, Trading and Compliance, Performance and Risk Management. Nakis helps and advises clients on change management, process improvement, and implementation of strategic initiatives. He holds an MBA from University of La Verne.


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HOW ABOUT SOME LOVE FOR THE GP?



BY REBECCA SYMONDS

Private equity firms are digitally transforming their operating environments at break-neck pace. From the front- to the middle- and onto the back office, technology has revolutionized the way that firms interact with their investors, portfolio companies and even the regulators. However, many firms are yet to take advantage of some of the most vital transformation opportunities. Surprisingly, these are opportunities which would directly benefit valued GP deal team members and employees. Employee/member incentive systems in place at most firms continue to resemble the pre-digitisation private equity industry where paper and email were the accepted methods of reporting.

Carried interest and GP commitment/co-investment plans are usually dealt with in-house, and typically revolve around nothing more sophisticated than a collection of Excel spreadsheets. In cases where third-parties such as fund administrators do lend assistance, systems still tend to be highly manual and spreadsheet dependent.

Why does that matter? A recent EY Global Private Equity report highlighted four key priorities for private equity CFOs: technology, talent, outsourcing and talent management. These in-house carried interest 'systems' are the polar opposite of what CFOs are saying, and telling us, their priorities are. And beyond that, these antiquated systems also carry significant risk.

MANUAL PROCESSES AND KEY PERSON RISK

At EWM Global, we help our clients to digitise their GP incentives, such as carried interest and GP commitment, and make data transparent and readily available for GP deal team members and employees. Manual errors in spreadsheets are identified during most implementations: some tiny, some significant. Two to three seemingly simple spreadsheets soon balloon into 20 or 30 as investments are realised and new funds launched. These systems can be very risk-prone, messy and time-consuming from an administrative perspective.

The manual element of spreadsheets means that information can be incorrectly entered and modified, or irregularly updated which puts untold – and, we would argue, unfair - pressure on HR and finance to 'get it right'. Beyond the human error risk, there is another human risk: often the complexity and lack of documentation means that only one or two individuals truly know how to operate their 'system'. This is seemingly fine until that individual is promoted or leaves.

Churn on the member-side leads to additional complexity in terms of ensuring that forfeited carry points are properly reallocated. Points can easily be misallocated or orphaned, and these mistakes can multiply to the point where millions of dollars risk being misallocated or lost.

Changes in complicated regulation and taxation structures, both over time and between territories, add yet another dimension of complexity and risk to proceedings if all the calculations are sitting in a master (or dare we say it, monster) spreadsheet.

Again, we might ask, why does it matter? This is not just about making sure a firm's systems are running smoothly. It is also about ensuring talent, in this case the GP deal team members and employees, know the true value of their package.

THE ART OF THE POSSIBLE

Firms that do not start to look at this side of their operations could find themselves

at a disadvantage compared to first-movers. Attracting and retaining the right talent is a crucial element to success in the world of private equity and getting remuneration systems right could lead to considerable upside. With competition for talent growing increasingly fierce, ensuring that carry systems are reliable and correctly administered provides both transparency and understanding of the value for the member.

Having a system that allows member and administrator to see, at-a-glance, an up-to-date snapshot of current status is becoming increasingly the norm. We have already seen the shift from requiring an annual update to quarterly and we anticipate that members will soon want to know where they stand at any given moment in time. This is what they expect in other areas of their life, from Facebook to Amazon, so why not from their firm?

Digitised platforms drive process automation and provide users with convenient access to information whenever needed. They can capture carry plan rules such as allocation and reallocation of carry, vesting, partner termination rules, valuation changes, and payout information in a transactional database, rather than offline through disconnected spreadsheets. A digital platform can work for your firm and the unique set up you have created, so that you can truly drive the system to ensure that all the detail previously stored in complex spreadsheets is captured and is readily accessible online. Not only does a system reduce the propensity for error, but it also provides a vital audit trail which, after years of movements and transactions, is virtually impossible without systematic management of the data.

> "Two to three seemingly simple spreadsheets soon balloon into 20 or 30 as investments are realised and new funds launched. These systems can be very risk-prone, messy and time-consuming from an administrative perspective"
>
> **Rebecca Symonds Chief Operating Officer and a member of EWM Global's Management Committee**

What should firms look out for? Given the sensitive nature of the data, information security is key. Systems should be secured from unauthorised access by external parties through methods such as two-factor authentication and encryption. They should also support rigid separation of information within teams to prevent unauthorised access to other people's data. Executive participants should have access to all of their carry and GP information, from LPAs and subscription agreements to vesting, valuations and historical data, and should be able to securely provide bank account details for future distributions and electronically sign documents online.

SHARE THE LOVE

We hope that by embracing outsourced technology-driven solutions, forward-thinking GPs will be able to break free from spreadsheet limitations. Firms that have transitioned to a digitised platform are already successfully using them as part of talent acquisition, on-boarding and ongoing management, rewarding GP members and employees with information at their fingertips and transparency to foster trusting long-term relationships.

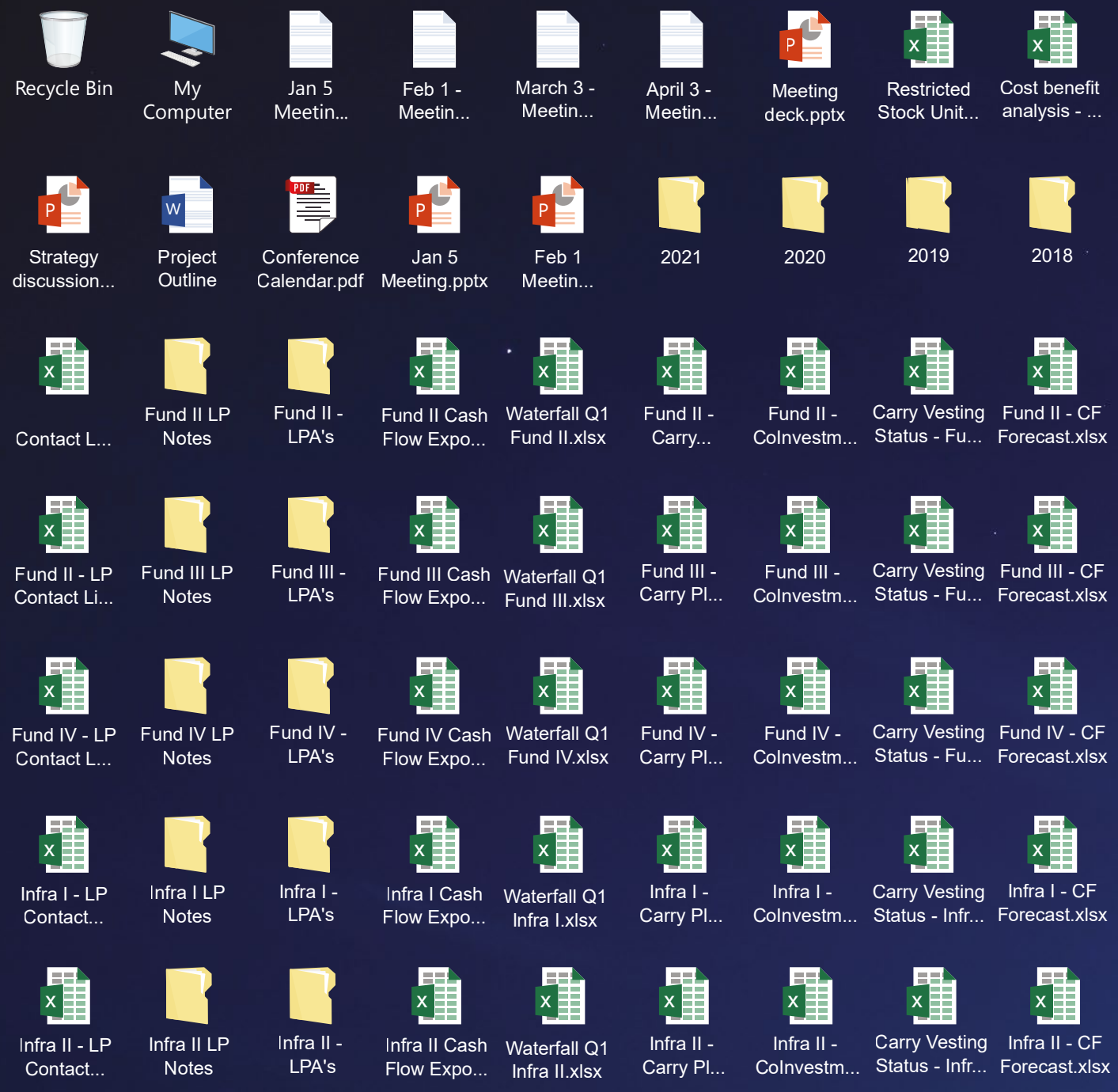
We expect that talent, tech and outsourcing will remain headline issues for private equity firms and think there is no better time to make sure that valued GP members and employees also feel the love! ■



REBECCA SYMONDS

CHIEF OPERATING OFFICER AND A MEMBER OF EWM GLOBAL'S MANAGEMENT COMMITTEE

Rebecca Symonds joined EWM Global in 2002, and is currently the Chief Operating Officer and a member of EWM Global's Management Committee. For over two decades, EWM Global has been leading the digital transformation of incentive plan management for financial services firms worldwide. With all data on one platform, we offer our clients a 'single source of truth' in managing the rewards programs for their most valuable asset – their key employees.



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TRAINING AND TECHNOLOGY

ARE CRITICAL TO ENSURING CYBERSECURITY FOR PRIVATE EQUITY FIRMS

BY ROBIN PAGNAMENTA

Over the past 18 months, the shift towards working from home has exposed private equity firms to a far higher threat of cyberattacks, and many have wanted to review their cybersecurity options to ensure good defences against cyber-attack, says George Ralph, Global Managing Director and CRO of business IT consultancy RFA, who specialise in cloud, data, and cybersecurity solutions.

For firms conducting big deals potentially worth billions of dollars, the loss of any sensitive data or information could be hugely damaging.

That is why training every member of staff properly and effectively in the safe use of technology is a vital part of any firm's cybersecurity procedures, Ralph says.

"When you or your technology partner are training, make it accessible, understandable for all, and aim for a series of short sessions rather than one long one," he comments.

"In our scattered working environment, perhaps even make the training a part of a team catch up, ensuring it is inclusive for every member of your team, no matter what their role within your business."

However, it is also essential for businesses to be realistic about the complex and persistent threats that exist.

Ralph says: "Your users cannot compensate for weaknesses in your processes or technology. It isn't realistic to expect, when each member of your team is dealing with hundreds of emails every day, often under pressure, for the team to be vigilant at all times. Different roles in your business will have different risks associated with them, so it is worth setting up different security measures accordingly."

Where appropriate, he recommends that firms make use of containerised remote desktops for users to view sensitive information or provide documents that can't be downloaded via secure collaboration tools.

RFA offers clients its own extra layer of protection against cyber threats. The firm operates a dedicated Security Operations Centre (SOC) designed to monitor suspicious activity on all of its clients' networks 24 hours a day, 365 days per year.

Typically, this kind of service is provided by an outsourced third-party provider but RFA offers its own in-house managed detection and response service for clients, which incorporates machine learning and AI capabilities to help identify attacks and prevent them before they are successful.

"Through looking for anomalies in the behaviours of a person or device, or bad links or data, our automated system can react to abnormalities and security threats in real time," says Ralph.

"We understand the massive increase in number of entry points to a network that has come about since more people are working remotely, away from their main offices. This creates a security risk, mostly made up of devices being connected to multiple networks."

CLOUD OFFERS BIG IMPROVEMENTS

Increased awareness of cyber threats is only one technology trend which Ralph says has dominated the industry in recent years.

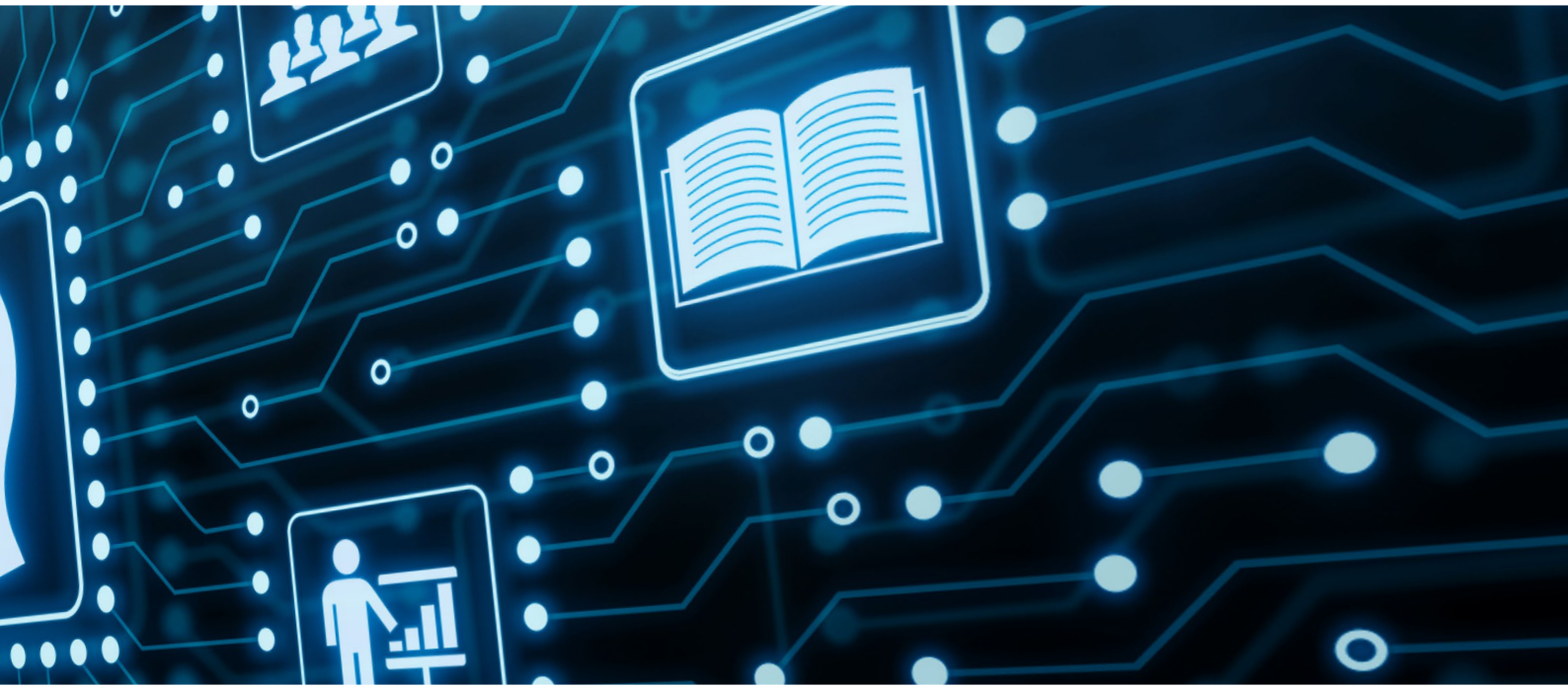
Private equity firms have also been shifting more of their data and activities into the cloud as they seek to take advantage of the same highly scalable storage and flexible computing power which is transforming many other industries.

Ralph believes the advantages for PE firms in terms of efficiency and the ability to use new tools and AI-based services to analyse potential target companies and conduct deals are huge.

By digitising as much of their activity as possible on the cloud, private equity firms can seize significant competitive advantages, he believes.

"An effective digitisation process is built on an effective data strategy," says Ralph, a cloud and cybersecurity specialist who has been advising financial services firms on the transition from on-premise to cloud-based solutions for many years.

"An end-to-end managed data solution is usually the most effective approach for a PE firm. A data warehouse will separate the layers of your data via any public cloud provider: AWS, Azure or Google Cloud. You are then able to scale your data and separate



data processing and storage to allow you to harness that data for deal making and key investment decisions."

AUTOMATION

By automating processes that have previously been conducted by in-house teams manually, Ralph says that firms can improve their data governance and analytics in ways which will also better meet the demanding standards of institutional investors and global financial regulators.

An emerging private equity manager and an established manager might use different tools for their data and digital transformation journey, he says, but the principle is broadly the same.

"The great thing about public cloud and data warehousing is that it is entirely scalable. At RFA, we don't have clients using the same technology set up two years after launch as they did on day one: the journey is seamless as we scale firms up," Ralph comments.

Founded in 1989, RFA, which has over 850 clients globally divided between hedge funds and private equity, offers clients managed private cloud, infrastructure-as-a-service and secure multi-cloud services, which offer the flexibility and scalability of public cloud services whilst benefiting from the security and direct control of the private cloud.

Crafting an effective data management strategy is a critical priority for PE firms which are seeking to make the most of their shift to the cloud, says Ralph.

"As more and more people get involved in their data journey, they will discover more anomalies in the patterns of their behaviour as a business, how they operate and also the functions of the business. Alongside those starting out, firms that have already embarked on their digitisation journey are in phase two of their delivery now, and we are seeing firms' data scraping into their data warehouse to then review the KPIs on that data in order to see how that impacts their fund's performance."

Outsourcing to a third-party provider is likely to be a key part of any shift to the cloud. "As an example, at RFA, we have a significant R&D team," Ralph says.

"We use Snowflake, Azure and AWS to manage our own data, and Power BI to get insight into that data. This allows us to use trend analysis to see what of our own processes we should automate; this is exactly the same mechanism we use for clients and is difficult to substantiate without outsourced assistance," he concludes. ■



GEORGE RALPH

MANAGING DIRECTOR, RAF

George Ralph CITP has successfully founded three technology firms along with C-level advisory services include M&A to numerous firms. George is a true leader and has been managing teams internationally, and leading technology transformation projects for over 20 years. A certified GDPR, Cyber assessor, Auditor, Architect and widely experienced cybersecurity and regtech professional, George has extensive technical experience in network and server architecture, large scale migrations utilising leading technology brands, and IaaS offerings.



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TECHNOLOGY PLAYS A KEY ROLE

AS PRIVATE EQUITY ENJOYS A RECORD YEAR POST-PANDEMIC

BY ROBIN PAGNAMENTA

Private equity managers have had a frenetic 12 months.

From the depths of the pandemic, the industry has staged a remarkable rebound, eagerly hunting down deals as firms rush to spend dry powder.

With more than USD580 billion in deals announced in the first half, 2021 is on track to be a record-breaking year – the first ever in which private equity firms deploy in excess of USD1 trillion in capital, according to figures from EY.

So how have evolving technology trends been affecting the industry?

Jacob Zornes of UMB Fund Services has a better perspective than most. With decades of experience in the sector, UMB has over 160 clients spread across hedge funds and private equity. The firm services over 1,000 funds with a total of over USD128 billion in assets under administration and offers a full private equity fund accounting system.

TECHNOLOGY OFFERS AN EDGE

Zornes believes private equity managers are ready to embrace new technology, which can help give them an edge over the competition and allow them to cope with the growing volume and tempo of deals they are working on.

Typically, private equity firms use software for three main functions, he explains. These include a system that manages deal flow, a separate portfolio company reporting system and a fund accounting system, he says.

The first is used to track communication back and forth in every potential deal that a firm is looking at.

"It's their deal pipeline, how many deals are underway and what's being funnelled through," says Zornes. "With private investment, due diligence requires drilling down into the particulars. It is necessary to maintain all the communication and contacts, and track throughput."

The second piece of software is an analytical tool that can be integrated directly into a firm's accounting system to help ensure portfolio managers and investors can access all of the information they desire at any time – and satisfy regulatory requirements where necessary.

"A private equity manager needs to be able to easily collect performance metrics from their portfolio companies on a regular cadence," says Zornes.

"A portfolio tracking system will facilitate the collection of KPIs (revenue, operating expenses, EBITDA, FTEs, or any other metric) from the underlying portfolio companies. A strong system will allow you to easily extract these metrics from the database, ultimately empowering analysts to monitor the progress of the portfolio.

"The lynchpin is the fund accounting system, which should be able to integrate with both the deal flow and the portfolio tracking system. This integration is key because it allows private equity managers to get a holistic picture of what's being reported," Zornes comments.

SELECTING A FUND ACCOUNTING SYSTEM

So, what should private equity managers be thinking about when they select a fund accounting system? Zornes says the first priority is that it must truly meet their

> "With private investment, due diligence requires drilling down into the particulars. It is necessary to maintain all the communication and contacts, and track throughput"
>
> **Jake Zornes Managing Director, Alternative Investments**

business needs given their portfolio construct, investor base, and business requirements. That means, it needs to be able to track and report on the specific data points that matter most. Second, it must be able to produce the consolidated reporting needed to manage a fund and keep investors up to date.

Mistakes can be expensive and time consuming to rectify so it's vital to make the right decisions. After all, there are significant costs of time and money for a PE manager that selects the wrong fund accounting system, or one that is not specifically designed for private equity, especially if they don't have the in-house knowledge to make it work.

GROWING MARKET OFFERS WIDER CHOICE

Either way, on both counts, Zornes thinks the range of software that is now available to firms has become wider and increasingly sophisticated, offering new and better tools.

"More and more players are entering the marketplace," he says. "There used to only be one or two software vendors out there. Now we are seeing new market entrants from the fintech space who are saying: 'We can do this better'."

He says the days of private equity firms using spreadsheets to manage all of the information about their portfolio companies is coming to an end as executives realise there are better systems available.

"What they are starting to recognise is that spreadsheets, while great analytical tools, are not necessarily a database," he says.

"But they've been treating spreadsheets like a databases for many years, and so they have all that historical data stored. Now they're finding that the maintenance of that data is costly and time consuming, so they need to migrate that information into a portfolio tracking system."

DELAY CAN POSE A RISK

Zornes says the risk with this spreadsheet-based approach is that firms may wait too long to make the transition to a new system.

"Don't wait for that moment when you realise: 'I've got too much risk with all my data in spreadsheets and I've got to fix this'. Don't wait for it to become a problem: proactively look for a software solution that will meet your short-term and long-term needs."

Postponing the decision can store up extra trouble for your organisation, he says.

"Because when you wait, you are not only dealing with migration costs, but also with an internal team who may be resistant to change because they've been using spreadsheets for so long they've gotten used to it."

"All of a sudden, you have a migration project on your hands, and your staff may be reluctant to undertaking such a large project. Don't postpone this decision because you're worried about costs. You should do it now."

After all, the range of technology services now available to private equity firms is growing all the time. Some software firms now offer private equity firms a full-service offering where they will actually contact a firm's portfolio companies on their behalf and collect the data they need.

"On the other side of the spectrum, is software where the fund manager manages that process. They can automate the communication to a portfolio company and customise the metrics that they're trying to collect. The manager is in complete control."

Zornes says another key trend has been private equity firms seeking to encourage their portfolio companies to make better use of technology to become more efficient and profitable.

"If you can implement the right technology, you may be able to be a significant industry disrupter. The private equity industry is moving towards a technology focus at a great pace, and innovation is going to rule the day in a market that is becoming more and more competitive," he concludes. ■



JAKE ZORNES

MANAGING DIRECTOR, ALTERNATIVE INVESTMENTS

Jake Zornes is managing director at UMB Fund Services. He manages a team responsible for product development for the firm's proprietary software, AltPro®. In addition, he assists with business development activities, including product demonstrations for prospective clients. Jake has worked in the fund industry since 2007,including more than eight years with UMB. He holds a finance degree and an MBA, and is a certified public accountant.

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PE FIRMS EMBRACE LEGALTECH

TO OPTIMISE THEIR COSTS

BY ROBIN PAGNAMENTA

Legal bills are never much fun when they land in the inbox. This is especially true for private equity firms, for whom legal costs can be among their single biggest areas of expenditure.

But a flurry of cloud-based technologies is transforming the way the industry handles its legal work – and the trend may only just be getting started, says Nicholas d'Adhemar, founder of legaltech firm Apperio.

A former in-house private equity counsel, d'Adhemar understands all too well the ease with which legal costs can mount during a deal, especially when unforeseen complications arise.

"What rankles PE managers is the unexpected, unpredictable nature of legal costs," says d'Adhemar.

A law firm might expect the cost of a deal to be GBP300k, but a plethora of factors could cause that figure to spiral, perhaps due to delays getting the deal over the line or bringing in additional legal partners. The next thing you know, the cost has doubled before the deal has even been completed.

"In-house legal counsel might not necessarily be surprised, but the CFO might well ask why they didn't have visibility on the cost so that they could better plan for it," adds d'Adhemar. "It's the knock-on effect that it has on the rest of the business and being caught unaware - that's the problem."

In a white paper penned last year entitled "Rocketing scrutiny, eroding trust … the changing PE legal spend landscape", Apperio found that while 92 per cent of PE legal executives across the US and UK believe that their legal spend is predictable, only half of them trust their external legal advisors to bill them on time or accurately.

SINGING OFF THE SAME HYMN SHEET

Legaltech platforms, such as the one developed by Apperio, are taking strides to address this lack of transparency on legal spend. Receiving data directly from a law firm's internal systems allows GPs to get a real-time view of all the transaction work their external law firms are involved with as it happens.

"We provide in-house legal, deal and finance teams with a forensic visibility of their external spend in real time," states d'Adhemar.

The "real time" element is a key differentiator as it means both external and internal legal counsel can stay on top of the deal fees, as and when they are incurred, getting ahead of the invoice. This avoids the shock of getting a larger-than-expected invoice at the end of the month and potentially having to negotiate with external counsel, which can lead to acrimony and a situation where neither party is left satisfied.

"The platform enables in-house counsel to get ahead of the invoice and take control of the work being completed. This leads to an informed, proactive conversation with the deal partners and law firms to decide how to proceed with a deal or re-prioritise some of the work involved. It's all about effective oversight," explains d'Adhemar.

For example, say a buyout manager is using five different law firms. Apperio connects with each of the law firms' systems, receives the clients' legal spend data and then presents a consistent, detailed view back to them in an aggregated format. At the same time, each law firm benefits by reducing invoice friction and improving the quality of data they are sharing with the client.

Having this data-driven, aggregated view on legal spend means that everyone sings off the same hymn sheet.

ICEBERG EFFECT

Not only can greater transparency on legal spend avoid potential awkward conversations with external legal providers it can, at the same time, improve how private equity firms appraise those relationships. Is a law firm providing true value? Are they billing accurately, and on time? How do they compare to other law firms?

In that regard, Apperio's platform helps private equity firms to monitor what d'Adhemar refers to as the 'iceberg effect'.

An in-house legal team might only consist of one or two people. As such, they can't expect to constantly monitor the details and spending for every deal. While they have the legal expertise, they might only be communicating directly with two or three people inside the law firm. In reality, there may in fact be a team of dozens of lawyers beneath them, whose involvement can rapidly accelerate costs.

"Oftentimes that's incredibly valid, but it's useful to understand the make-up of the team and the specific people that are involved. Apperio's platform gives the legal team that oversight and control – they can spot potential anomalies and manage by exception, instead of waiting for the law firm to send their invoice. It allows them to have a constructive discussion," adds d'Adhemar.

FRESH VISIBILITY

The platform's visibility doesn't end there, though. By offering an instant snapshot of the legal work under way for every deal, private



equity firms can start analysing and managing their legal costs in a much more detailed and effective way.

For example, by determining average costs based on a firm's historic flow of deals, the system can automatically flag up amber or red early warnings if legal costs are mounting unexpectedly on a specific project. That in turn allows in-house legal counsel to spot anomalies and intervene at an earlier stage in order to address the problem.

"We can take all the historical data that the fund has and look at all their deals over time to make sure that in future, deals are not deviating too much from the mean," explains d'Adhemar.

"Some law firms have really embraced it," states d'Adhemar. "Fundamentally, it is making their lives easier. They can focus on doing the legal work and actually start to improve payment cycle times for their clients."

COMPETITIVE LANDSCAPE

Legal technology is only one example of how digitisation can bring cost efficiency to what has, traditionally, been a manual and labour-intensive task for the industry.

With many private equity firms playing an increasingly prominent role investing in software and technology companies around the world, many are starting to look more carefully at their own internal processes – and are keen to apply lessons in-house.

"Legal has tended to be viewed as a bit behind the times and slow to change but today, partly as a result of the Covid-19 pandemic, there is a realisation that technology can really help private equity firms practice what they preach and introduce digitisation tools in a similar manner to their portfolio companies.

"Managers are saying: 'Hang on a second. We're investing in these businesses that are disrupting industries, driving change and making improvements but we aren't doing it internally ourselves,'" says d'Adhemar. "We should walk the walk as well as talk the talk."

As Bain and Company point out in their 2021 global private equity report: "PE firms have become expert in diagnosing the need for digital change at their portfolio companies. Becoming more competitive in the years ahead will mean bringing those lessons home".

As legaltech continues to make advances and improve how legal spend is managed and controlled, the penny is starting to drop.■



NICHOLAS D'ADHEMAR

CEO AND FOUNDER

Nicholas d'Adhemar is the founder and CEO of Apperio. Prior to founding Apperio, Nicholas spent six years working as a lawyer for a large international law firm. After completing his MBA at INSEAD, Nicholas spent three years working in Private Equity. Having experienced first-hand the frustration of disputed fees and delayed invoice payments over completed deals, he found that regularly sharing fee information between law firms and their clients significantly improved working relationships. From this simple idea, Apperio was born in 2015.

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